



April 22, 2002

Honorable City Council  
Detroit, Michigan

The accompanying report provides our analysis of the 2002-2003 Mayor's Proposed Budget for the City of Detroit.

**Overview:**

The estimated revenues included in the 2002-2003 Mayor's Proposed Budget consist of Local sources, State sources, and Federal sources of revenues in the following amounts and percentages:

	Estimated Revenues (In Millions)	Percent of Total
Local sources	\$2,934	78.8%
State sources	543	14.6%
Federal sources	<u>245</u>	<u>6.6%</u>
Total	<u>\$3,722</u>	<u>100.0%</u>

The 2002-2003 Mayor's Proposed Budget does not include three City departments that were included in the 2001-2002 City Budget, namely, the Detroit Housing Department, the Youth Department, and the Consumer Affairs Department, with \$77.9 million, \$4.2 million, and \$2.0 million of budgeted appropriations, respectively. The Mayor indicates the Detroit Housing Department was not included in his 2002-2003 Proposed Budget because it is an independent agency. Based on the Mayor's reorganization plan, the Consumer Affairs Department and Youth Department are eliminated, however, the functions are transferred to other departments.

The 2002-2003 Mayor's Proposed Budget of \$3.722 billion is approximately \$339 million, or 10%, more than the 2001-2002 Budget of \$3.383 billion. However, if the \$410 million increase attributable to the sale of Water and Sewerage Revenue Bonds is factored out, and the \$77.9 million of revenues included in the 2001-2002 Budget for the Detroit Housing Department is removed, the 2002-2003 Mayor's Proposed Budget provides an increase of about \$7.0 million, or two-tenths of 1%.



On the revenue side, the major components of the \$339 million net increase are:

	Increase/(Decrease) In Millions
Sales of Water and Sewerage Revenue Bonds.....	\$ 410
Municipal Income Tax Revenue.....	(61)
Casinos Enhancement Revenue.....	55
Sewage Disposal and Treatment Revenue .....	41
Water Sales .....	28
Supplemental Fees GDRRA.....	(22)
Net Property Tax Revenue.....	(14)
Earnings on Investments.....	(12)
Wagering Excise Tax (Casinos).....	9
Other Local Sources – Net.....	9
State Gas and Weight Taxes.....	(27)
Other State Sources – Net.....	(3)
Federal Housing Subsidy (eliminated from Budget).....	(48)
Housing Comprehensive Grant (eliminated from Budget).....	(23)
Federal Sources – Net.....	(3)
<b>Net Increase in Revenues.....</b>	<b>\$ 339</b>

On the appropriation side, major components of the net \$339 million increase are:

	Increase/(Decrease) In Millions
Salaries and Wages (resulting principally from the reduction in number of positions).....	(16)
Employee Benefits (primarily related to the increases in hospitalization and pension costs).....	33
Professional and Contractual Services [decreases related to various Departments, particularly DDOT (communication), Finance, Law, and Human Services].....	(17)
Operating Supplies (e.g., vehicle parts and office supplies).....	(8)
Operating Services (e.g., utilities and insurance premiums).....	(3)
Capital Equipment (decreases related to ITS computer and server upgrades).....	(9)
Capital Outlays (decreases include DPW construction and traffic control, and major repairs for Historical Department and Library)...	(30)
Fixed Charges (e.g., debt service on bonds).....	2
Other Expenses (major portion of increase primarily due to \$410 million Water and Sewerage Revenue Bonds for 2002-2003 and a decrease of \$78 million in appropriations for the Housing Department Operations).....	387
<b>Net Increase in Appropriations.....</b>	<b>\$ 339</b>



Most of our analysis focused on budget items having General Fund impact. General Fund appropriations included in the 2002-2003 Mayor's Proposed Budget total \$1.439 billion, or 38.7%, of the City's total 2002-2003 appropriations, and \$69.4 million, or 4.6%, less than the 2001-2002 Budget amount of \$1.509 billion.

#### **Revenues:**

The five largest components of recurring General Fund revenue, in descending order by budgeted amount, are State revenue sharing, municipal income taxes, property taxes, wagering excise taxes (casinos), and utility users excise tax.

State revenue sharing, budgeted at \$332 million, is the most stable of the major General Fund revenues. State law assures the City of \$332 million in State revenue sharing from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine month period ending June 30, 2007, subject only to a proportionate reduction if there is a decrease in State sales tax collections from one State fiscal year to the next.

Municipal income tax revenue is included in the 2002-2003 Mayor's Proposed Budget at \$323.5 million, or \$61.3 million (15.9%) less than the 2001-2002 budgeted amount of \$384.8 million. In addition, the City's Budget overestimated municipal income tax revenues for 2000-2001 by \$46.4 million (12%). The \$326.9 million projected as actual revenue for 2001-2002 is significantly less (\$57.9 million, or 15%) than the budgeted amount of \$384.8 million. In our opinion, given the decline in the effective income tax rates, the uncertainties of the economy, and the actual experience of the past two years, the \$323.5 million budgeted for municipal income tax revenue for 2002-2003 is realistic.

The 2002-2003 Mayor's Proposed Budget includes \$211.8 million for net property tax revenue, which is a decrease of \$13.7 million (6.1%) from the 2001-2002 Budget. Also, the Budget Department projects a \$17.1 million deficit in property tax collections for the fiscal year 2001-2002. These decreases are attributable mainly to the recent collection experience of 85.9% for 2000-2001 and 85.1% projected for 2001-2002. The 2002-2003 Mayor's Proposed Budget for net property taxes is based upon the application of a lower collection rate of 86% in 2002-2003, as compared to a 92.5% rate in 2001-2002. The City instituted a property tax amnesty program, which began April 1, 2002 and will end April 30, 2002. Through April 15, 2002, the City collected about \$3.3 million, or about three times the dollar amount collected for the comparable period in 2001, in property taxes for the general fund. In view of the lower collection rates the City has experienced recently and even with the apparent success of the property tax amnesty program, we agree with the net property tax collections estimated for 2002-2003 and the amount projected for 2001-2002, in the Mayor's Proposed Budget.

The wagering excise tax revenue is budgeted at \$105 million in the 2002-2003 Mayor's Proposed Budget, or \$9.2 million (9.6%) more than the \$95.8 million included in the 2001-2002 Budget. Considering the \$107 million of revenue projected for 2001-2002, and the level of average daily revenue collections by the City over the past twelve months, the \$105 million estimate for 2002-2003 is reasonable.

Utility users tax revenue is estimated at \$54.6 million in the 2002-2003 Mayor's Proposed Budget, or the same amount as actual collections projected for 2001-2002.



Based principally on the City's collection experience during the current fiscal year and in 2000-2001, we conclude that the \$54.6 million estimate for 2002-2003 is reasonable.

**Appropriations:**

The amount budgeted for salaries and wages has decreased by \$15.8 million (1.9%) from \$848.1 million in the 2001-2002 Budget to \$832.3 million in the 2002-2003 Mayor's Proposed Budget. Also, the number of budgeted positions in the Proposed Budget decreased by 1,089 (5.2%) to 19,901 positions in the 2002-2003 Proposed Budget, from 20,990 in the 2001-2002 Budget. The 1,089 decrease in positions results from 629 currently vacant positions plus 18 staff layoffs (resulting in a \$15.8 million decrease in budgeted salaries and wages) and the 442 Housing Department positions (for which the funding was included in Other Expenses) in the 2001-2002 Budget. Estimated employee turnover savings for salaries and wages are \$13.6 million in the 2002-2003 Mayor's Proposed Budget and \$23.2 million in the 2001-2002 Budget. There are no planned pay increases, other than normal step increments for employee salary and wage titles, for either the 2001-2002 or the 2002-2003 fiscal years, even though the 2001-2002 Budget included appropriations for increases in pay rates.

Employee fringe benefits (including pensions) for the entire City increased by \$33.3 million (8.9%) to \$408.1 million in the Mayor's Proposed Budget from \$374.8 million in the 2001-2002 Budget. This \$33.6 million increase is due mainly to a \$22.3 million increase in pensions (\$18.4 million for police and fire uniform employees and \$3.9 million for civilian employees) and a \$13.7 million increase in hospitalization costs for police uniform employees and retirees. The 2002-2003 Mayor's Proposed Budget also includes decreases in some fringe benefit costs compared to the 2001-2002 Budget. For example, social security decreased by \$1.6 million, workers' compensation decreased by \$2.1 million, and retirement sick leave decreased by \$2.7 million.

**Current Year Projection:**

The 2002-2003 Mayor's Proposed Budget assumes no General Fund surplus or deficit for 2001-2002, although the Budget Department currently projects a small surplus (\$82 thousand), which is subject to change.

The Mayor indicated that a series of management initiatives and two favorable revenue items will enable the City to avoid incurring a General Fund Deficit for the year ending June 30, 2002. He cited the following:

- A cost-cutting plan developed with input from City departments;
- Freezing selected unspent appropriations; and
- On the revenue side of the ledger, higher than expected casino wagering taxes and increased property sales.

The City reported a General Fund deficit of \$26.4 million for the fiscal year ended June 30, 2001, which will be eliminated through a transfer of funds from the Reserve for Budget Stabilization Fund balance in 2001-2002. This ended the City's streak of incurring a General Fund surplus for each of the prior six consecutive years, through the year ended June 30, 2000, and will leave only \$7.7 million in the Reserve for Budget Stabilization Fund.



**Other:**

Other items of financial importance and interest related to the 2002-2003 Mayor's Proposed Budget include the following:

1. Labor Negotiation Implications  
Contracts with the City's labor unions expired on June 30, 2001. Negotiations for the new contracts could result in costs for salaries, wages, and fringe benefits, which are not funded in the Mayor's Proposed Budget. The 2002-2003 Mayor's Proposed Budget does not include funding for any general pay raises and the Mayor indicated that any pay raises in 2002-2003 will have a direct affect of causing layoffs.
2. Casinos Enhancement Revenue  
Pending City Council approval, under the terms of the new Development Agreements, each casino developer will pay the City \$34 million. The 2002-2003 Mayor's Proposed Budget includes \$55.3 million for Casino Enhancement Revenue (a one time revenue item), which consists of the first installments from each casino (3 times \$17 million) plus the June 2003 payments (3 times \$1.4 million).
3. Detroit Housing Department  
The Housing Department is not included in the 2002-2003 Mayor's Proposed Budget because the Mayor considers it an independent agency, even though the employees of the Department are considered City employees at the present time. The City's 2001-2002 Budget included \$77.9 million in estimated revenues and an equal amount of appropriations for the Housing Department, which was accounted for as an enterprise agency. There is pending litigation which will ultimately determine whether the Detroit Housing Department separates from the City.
4. Health Department Accreditation  
The Health Department has secured full accreditation from the State of Michigan Department of Community Health, which requires each local public health agency in Michigan to meet particular standards to obtain accreditation. Such accreditation is critical for securing State funding of the City's public health needs in the future.
5. 36<sup>th</sup> District Court Funding  
The net tax cost of the 36<sup>th</sup> District Court is increasing significantly. Under the Mayor's Proposed Budget, the net tax cost increased by \$4.8 million (17.6%) from \$27.3 million in the 2001-2002 Budget to \$32.1 million. Since 1998-1999 budgeted net tax cost for the 36<sup>th</sup> District Court has increased by \$12.9 million (or 67%).
6. Demolition of Dangerous and Abandoned Buildings  
The Mayor's Proposed Budget provides \$13.2 million for the demolition of abandoned and dangerous buildings, which translates into the removal of about 2,000 buildings. This function is transferred from the Department of



Public Works to the Buildings and Safety Engineering Department in the Mayor's Budget to consolidate the process.

This report includes various summary charts and schedules which provide an overview of the 2002-2003 Mayor's Proposed Budget of \$3.722 billion, and make comparisons to the 2001-2002 City Budget, which totals \$3.383 billion. The report also includes our analyses and comments related to selected material areas (e.g., revenues, appropriations, and other budgetary aspects of City operations) included in the 2002-2003 Mayor's Proposed Budget.

In addition, we have included charts and schedules which provide a ten-year history of total revenues and expenditures, as well as selected revenues (e.g., municipal income tax revenue) and selected Departmental expenditures (e.g., Police Department) of the General Fund. These charts and schedules, which are included in both the Revenues and Appropriations sections of the report, cover the ten-year period from the fiscal years ended June 30, 1992 through June 30, 2001. They compare actual amounts to the revised budget amounts, as presented in the City's Comprehensive Annual Financial Reports (CAFR), for each of the ten years, including the latest available CAFR for the year ended June 30, 2001. These charts and schedules show that overall, for each of the past ten fiscal years, the General Fund has incurred budget surpluses on the expenditure side of the ledger (revised budget amounts have exceeded actual expenditures) and deficits on the revenue side (actual revenues have fallen short of revised budget amounts), just as the latest estimate of General Fund surplus for 2001-2002 reflects net surpluses in appropriations of \$74.4 million and net deficits in revenues of \$74.3 million.

Along with my staff, I wish to personally thank the Budget Department and the Finance Department for their assistance in this analysis.

Respectfully submitted,

Joseph L. Harris  
Auditor General